

AUDITED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION

INTERIOR TOWNSHIP  
ONTONAGON COUNTY, MICHIGAN  
March 31, 2004

**AUDITING PROCEDURES REPORT**

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>Interior Township</b>	County <b>Ontonagon</b>
Audit Date <b>3/31/2004</b>	Opinion Date <b>9/24/04</b>	Date Accountant Report Submitted to State: <b>10/27/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGU).			x

Certified Public Accountant (Firm Name) <b>Roger J. Kolehmainen CPA PC</b>			
Street Address <b>1445 East Cloverland Drive</b>		City <b>Ironwood</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49938</b>	

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**Roger J. Kolehmainen CPA PC**  
1445 East Cloverland Drive  
Ironwood, MI 49938

**INDEPENDENT AUDITOR'S REPORT**

Supervisor and Members of the Board  
Interior Township  
Trout Creek, Michigan

We have audited the accompanying general purpose financial statements of Interior Township and its combining and individual fund financial statements as of and for the year ended March 31, 2004, and the combining financial statements of the enterprise funds as of and for the year ended March 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that the audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Interior Township as of March 31, 2004, and the results of its operations and its cash flows of its proprietary fund type for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining and individual funds financial statements of the enterprise funds as of and for the year ended March 31, 2003, present fairly, in all material respects, and financial statements of the enterprise funds and their results of operations and cash flow for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued my report dated September 24, 2004, on our consideration of Interior Township's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

  
Roger J. Kolehmainen PC  
Certified Public Accountant

Ironwood, Michigan  
September 24, 2004

GENERAL  
PURPOSE  
FINANCIAL  
STATEMENTS

**TOWNSHIP OF  
COMBINED BALANCE SHEET  
March 31,**

	<u>Government Fund Type</u>		<u>Proprietary Fund Types</u>
	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Enterprise Funds</u>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$68,670	\$114,161	\$161,576
Accounts receivable-net	2,135		10,991
Delinquent taxes receivable	1,626	2,829	
Due from other funds	1,982	5,902	2,464
Accrued interest income		39	403
Prepaid expenses	3,682	1,032	1,410
<b>Total Current Assets</b>	<b>\$78,095</b>	<b>\$123,963</b>	<b>\$176,844</b>
<b>Fixed Assets:</b>			
General fixed assets			
Plant, property and equipment			2,187,845
Accumulated depreciation			(855,879)
<b>Other Assets:</b>			
Restricted cash			24,497
<b>TOTAL ASSETS</b>	<b>\$78,095</b>	<b>\$123,963</b>	<b>\$1,533,307</b>
<b>LIABILITIES AND MUNICIPAL EQUITY</b>			
<b>Current Liabilities:</b>			
Accounts payable	\$2,520	\$1,142	\$4,127
Accrued wages & taxes	2,095	125	65
Accrued interest payable			3,634
Due to other funds	7,028	1,214	1,658
Current portion of LT Debt			4,500
<b>Total Current Liabilities</b>	<b>\$11,643</b>	<b>\$2,481</b>	<b>\$13,984</b>
<b>Other Liabilities</b>			
Bonds payable			216,941
Less current portion			(4,500)
<b>TOTAL LIABILITIES</b>	<b>\$11,643</b>	<b>\$2,481</b>	<b>\$226,425</b>
<b>Fund Equity:</b>			
Investment in general fixes assets			
Contributions in aid of construction			1,058,695
Retained earnings			248,187
<b>Fund Balances:</b>			
Unreserved	65,807	121,482	
Designated	645		
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$78,095</b>	<b>\$123,963</b>	<b>\$1,533,307</b>

The accompanying notes are an integral part of the financial statements

INTERIOR  
ALL FUNDS TYPES  
2004

<u>Account Groups</u>		
<u>T&amp;A and Tax Fund</u>	<u>General Fixed Assets</u>	<u>Totals</u> <u>(Memorandum Only)</u>
\$	\$	\$344,407
1,650		14,776
		4,455
		10,348
		442
		6,124
\$1,650		\$380,552
	186,911	186,911
		2,187,845
		(855,879)
		24,497
\$1,650	\$186,911	\$1,923,926
\$1,202		\$8,991
		2,285
		3,634
448		10,348
		4,500
\$1,650		\$29,758
		216,941
		(4,500)
\$1,650		\$242,199
	186,911	186,911
		1,058,695
		248,187
		187,289
		645
\$1,650	\$186,911	\$1,923,926

**INTERIOR TOWNSHIP  
COMBINED STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
ALL GOVERNMENT FUND TYPES  
Year Ended MARCH 31, 2004**

	<b>Government Fund Types</b>		
	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Totals</u>
<b>==REVENUES==</b>			
Taxes	\$6,059	\$17,858	\$23,917
Other taxes	248		248
Tax administrative fees	5,048		5,048
Licenses and permits		1,075	1,075
Federal shared revenues		11,392	11,392
Rentals	1,641		1,641
State shared revenues	29,667	1,407	31,074
Charges for services	4,063		4,063
Interest	554	1,608	2,162
Reimbursements	743		743
Other revenue	1,621		1,621
<b>TOTAL REVENUES</b>	<b>\$49,644</b>	<b>\$33,340</b>	<b>\$82,984</b>
<b>==EXPENDITURES==</b>			
Legislative	\$15,166	\$	\$15,166
General government	26,645		26,645
Public safety	1,386	12,792	14,178
Public works	5,284		5,284
Parks and recreation			
Other	1,093		1,093
<b>TOTAL EXPENDITURES</b>	<b>\$49,574</b>	<b>\$12,792</b>	<b>\$62,366</b>
<b>EXCESS OF REVENUES (EXPENDITURES)</b>	<b>\$70</b>	<b>\$20,548</b>	<b>\$20,618</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer from other funds	210	2,555	2,765
Transfers to other funds	(2,555)	(210)	(2,765)
<b>EXCESS OF REVENUES (EXPENDITURES) AND OTHER FINANCING SOURCES</b>	<b>(\$2,275)</b>	<b>\$22,893</b>	<b>\$20,618</b>
 Fund balance at 3/31/2003	 68,727	 90,243	 158,970
Prior period adjustment		8,346	8,346
<b>FUND BALANCE 3/31/2004</b>	<b>\$66,452</b>	<b>\$121,482</b>	<b>\$187,934</b>

The accompanying notes are an integral part of the financial statements

INTERIOR TOWNSHIP  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE AND COMPARISON WITH BUDGET  
ALL GOVERNMENTAL FUNDS TYPES  
Year ended March 31, 2004

	General Fund			Special Revenues Funds		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>REVENUES</b>						
Taxes	\$6,000	\$6,059	\$59	\$10,500	\$17,858	\$7,358
Other taxes	805	248	(557)			
Tax administrative fees	2,845	5,048	2,203			
Licenses and permits				1,800	1,075	(725)
Rentals	1,875	1,641	(234)			
Federal shared revenues					11,392	11,392
State shared revenues	26,000	29,667	3,667	1,040	1,407	367
Charges for services	3,350	4,063	713			
Reimbursements	4,467	743	(3,724)			
Interest	500	554	54	357	1,608	1,251
Other revenue	230	1,621	1,391			
	<u>\$46,072</u>	<u>\$49,644</u>	<u>\$3,572</u>	<u>\$13,697</u>	<u>\$33,340</u>	<u>\$19,643</u>
<b>EXPENDITURES</b>						
Legislative	\$15,000	\$15,166	(\$166)	\$	\$	\$
General government	27,645	26,645	1,000			
Public safety	2,307	1,386	921	11,470	12,792	(1,322)
Public works	6,400	5,284	1,116			
Parks and recreation	400		400			
Other	5,510	1,093	4,417			
	<u>\$57,262</u>	<u>\$49,574</u>	<u>\$7,688</u>	<u>\$11,470</u>	<u>\$12,792</u>	<u>(\$1,322)</u>
EXCESS OF REVENUES (EXPENDITURES)	(11,190)	70	11,260	2,227	20,548	18,321
OTHER FINANCING SOURCES (USES)						
Transfers to/from other funds		(2,345)	(2,345)		2,345	2,345
EXCESS OF REVENUES (EXPENDITURES) AND OTHER FINANCING USES	(11,190)	(2,275)	8,915	2,227	22,893	20,666
Fund Balance at 3/31/2003	68,727	68,727		90,243	90,243	
Prior period adjustment					8,346	8,346
<b>FUND BALANCE MARCH 31, 2004</b>	<u><b>\$57,537</b></u>	<u><b>\$66,452</b></u>	<u><b>\$8,915</b></u>	<u><b>\$92,470</b></u>	<u><b>\$121,482</b></u>	<u><b>\$29,012</b></u>

The accompanying notes are an integral part of the financial statements

INTERIOR TOWNSHIP  
COMBINING STATEMENT OF INCOME AND  
CHANGES IN RETAINED EARNING  
PROPRIETARY FUND TYPE  
March 31, 2004

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Operating revenues:</b>			
Sales to customers	\$47,087	\$3,403	\$50,490
<b>Operating expenses</b>			
Personnel services	\$3,918	\$3,823	\$7,741
Purchase of services	8,971	1,796	10,767
Depreciation	21,333	28,625	49,958
Insurance	2,614	1,112	3,726
Materials & supplies	331	180	511
Utilities	1,492		1,492
Other	942	329	1,271
Total Operating Expenses	\$39,601	\$35,865	\$75,466
<b>INCOME FROM OPERATIONS</b>	\$7,486	(\$32,462)	(\$24,976)
Other revenues (expenses):			
Non-operating revenue:			
Interest income	669	1,956	2,625
Sewer assessment		3,791	3,791
Non-operating expense - Interest expense	(11,233)		(11,233)
<b>NET INCOME</b>	(\$3,078)	(\$26,715)	(\$29,793)
Provision for depreciation included in operating expenses by external restricted grants	15,700	24,172	39,872
<b>INCREASE IN RETAINED EARNINGS</b>	\$12,622	(\$2,543)	\$10,079
Retained earnings 3/31/2003	30,178	207,930	238,108
<b>RETAINED EARNING 3/31/04</b>	\$42,800	\$205,387	\$248,187

The accompanying notes are an integral part of the financial statements

INTERIOR TOWNSHIP  
COMBINING STATEMENT OF CASH FLOWS  
PROPRIETARY FUND TYPE  
March 31, 2004

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income from operations for the year	\$7,486	(\$32,462)	(\$24,976)
Adjustments to reconcile income from operations to net cash provided by (used in) operating activities:			
Depreciation	21,333	28,625	49,958
(Increase) decrease in:			
Trade account receivable	(2,764)	1,262	(1,502)
Accrued interest income	65	387	452
Prepaid expense	196	85	281
Due from other funds		348	348
Increase (decrease) in:			
Accounts payable	3,854		3,854
Accrued wages	(379)		(379)
Accrued interest	(226)		(226)
Total Adjustments	22,079	30,707	52,786
<b>Net Cash Provided by Operating Activities</b>	<b>\$29,565</b>	<b>(\$1,755)</b>	<b>\$27,810</b>
<b>Cash Flows from Capital and related financing and investing activities:</b>			
Interest income	669	1,956	2,625
Sewer assessment		3,791	3,791
Equipment purchases	(335)	(336)	(671)
Principal paid on loans	(14,658)		(14,658)
Interest paid on bonds	(11,233)		(11,233)
Net cash provided (used) for capital and related financing and investing activities	(25,557)	5,411	(20,146)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>4,008</b>	<b>3,656</b>	<b>7,664</b>
Cash 3/31/2003	58,479	119,930	178,409
<b>CASH 3/31/2004</b>	<b>\$62,487</b>	<b>\$123,586</b>	<b>\$186,073</b>

The accompanying notes are an integral part of the financial statements

INTERIOR TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

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NOTE A - STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The Interior Township operates under an elected board of trustees, which includes a supervisor, clerk and treasurer. The Township provides to its residents, services in many areas including public safety, highways and streets, water and sewer, culture and recreation, planning and zoning, and general administrative services. The financial statements of the Township have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial-reporting principles. In conformity with generally accepted accounting principles, other autonomously operated governmental organizations are not considered to be part of the Township financial reporting entity. The criteria established for determining the various governmental organizations to be included as component in the Township's financial statements include oversight responsibility, scope of public service, and special financing relationships.

On this basis, the financial statements of the local school district and mill pond (non-profit entity) committee are not included as a component unit in the financial statements of the Township. Educational services are provided to citizens through the local school district, which is a separate governmental entity.

Basis of Presentation - Fund Accounting

The accounts of the Township are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise of assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, categorized and described as follows:

GOVERNMENTAL FUND TYPES

General Fund - is the general operating fund of the Township. This fund is used to account for all financial resources except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal shared revenues.

INTERIOR TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

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Special Revenue Fund - is used by the Township to account for the proceeds of specific governmental revenues (other than special assessments and major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

ACCOUNT GROUPS

General Fixed Assets Account Group - This is not a fund but rather an account group this is used to account for general fixed assets acquired principally for general purpose and excludes fixed assets of the Enterprise Funds.

PROPRIETARY FUNDS

Enterprise Funds - Enterprise Funds report operations that provide services, which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes. The Funds are used to account for utility operations in a manner similar to private business enterprises. The intent of the Township is to recover operating expenses, including depreciation, through user charges.

FIDUCIARY FUND TYPE

Tax Fund - This fund is used to account for tax monies held by the Township in a trustee capacity or as an agent for other governments and/or other funds. These funds are custodial in nature and do not involve measurement of results of operations.

Basis of Accounting and Measurement Focus

The basis of accounting determines when transactions and economic events are reflected in financial statements, and measurement focus identifies which transactions and events should be recorded.

Governmental Funds and the Agency Funds use the modified accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they become both available and measurable (flow of current financial resources measurement focus). Licenses and permits, charges for services and miscellaneous revenues are recorded as revenues when received in cash. General property taxes and investment earnings are recorded when earned or levied (when they are measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except expenditures for debt service and other long-term obligations, which are recognized when paid.

INTERIOR TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

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The Township has adopted the accrual basis of accounting for the Proprietary Fund. This basis of accounting and measurement focus emphasizes the measurement of net income similar to the approach used by commercial enterprises, and revenues are recorded when earned and expenses are recorded when incurred.

#### Scope of Reporting Entity

In accordance with the provisions of the Governmental Accounting Board's Statement No. 14 "The Financial Reporting Entity," the general purpose financial statements of the Township contain all the Township funds and components units that are controlled by or dependent on the Township's executive or legislative branches.

#### Property Taxes

Property taxes attach as an enforceable lien on property as of December 31. Taxes are levied on the ensuing December 1. The Township bills and collects its own property taxes and also collects current rolls for the County and School District. The Township records delinquent real property taxes as revenue upon levy; since the County will sell tax notes and remits monies to the various units of government.

#### Budgets

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1, the proposed budget for each budgetary fund is submitted to the Township Board for consideration. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is held at the annual Township Board meeting to obtain taxpayers comments.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted prior to the fiscal year by the majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.

INTERIOR TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

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6. Any revisions to the budgeted amounts must be approved by a majority vote of the Township Board.
7. Budget appropriations lapse at the end of each fiscal year.
8. Budgeted amounts presented in the financial statements are as originally adopted and amended by the Township Board.

Formal budgets are not required for the operations of the Proprietary Fund types.

#### Restricted Assets

Enterprise Funds, because of certain bond covenants, are required to establish and maintain prescribed amounts of cash that can be used only to service outstanding debt and to pay for repairs to and maintenance of the utility systems. The Township has deposited monies to meet the minimal amounts required per covenants.

#### Total Columns on Combined Financial Statements - Overview

The total column on the Combined Financial Statements is captioned Memorandum Only to indicate that it is presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither are such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of these data.

#### General Fixed Assets

Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, such as roads, sidewalks and bridges are not capitalized. Property, plant and equipment acquired or constructed for general governmental operations is recorded as expenditure in the fund making the expenditure and capitalized at cost in the General Fixed Assets Account Group. General Fixed Assets are not depreciated.

Property, plant and equipment acquired for proprietary funds are capitalized in the respective funds to which it applies.

INTERIOR TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

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Property, plant and equipment are stated at cost. Additions, improvements and major replacements are capitalized at cost. Depreciation of exhaustible fixed assets used by proprietary funds is charged as an expense against operations, and accumulated depreciation is reported on the proprietary funds' balance sheets. Depreciation has been provided over the useful lives using the straight-line method of depreciation. Depreciation on assets acquired by grants externally restricted for capital construction is accounted for as a reduction of contributed capital rather than as a decrease in retained earnings.

The estimated useful lives for each major class of depreciable fixed assets are as follows:

Utility Plant	40-50 Years
Equipment	5-10 Years

#### Cash and Cash Equivalents

The Township's cash and cash equivalents are considered to be cash on hand, certificates of deposits, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

State statutes authorize the Township to invest in U.S. Government obligations, certificates of deposits, commercial paper, repurchase agreements, bankers acceptances, and with some restrictions, mutual funds. An Attorney General's opinion states that public funds may not be deposited in states other than Michigan.

All investments, if any, are stated at fair value.

#### Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the Proprietary Fund Type consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

INTERIOR TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

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Interest Expense

Interest on bonded indebtedness is recorded as expenditure as accrued.

Long- Term Debt

Long-term liabilities for revenue bonds are reported in the appropriate Enterprise Fund.

Interest Receivables

Interest on investments is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Due to and Due from Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Fund Equity

The unreserved undesignated fund balances for governmental funds represent the amount available for budgeting future operations. Unreserved retained earnings for proprietary funds represent the net assets available for future operations or distributions. Reserved fund balance for governmental funds represents that portion of fund equity, which has been legally segregated for specific purposes and/or does not constitute current available spending resources.

Contributed Capital

The Township follows the policy of reducing contributed capital in the water and sewer fund for an amount equal to the yearly depreciation on assets acquired or constructed with such contributions. This policy is based on the premise that the users who benefit from the facilities and not current users through the current rate structure will fund future replacement of these facilities. At March 31, 2004, Federal and State contributed capital accounts are as follows:

INTERIOR TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

	<u>Water</u>	<u>Sewer</u>
Contributions in aid of construction	\$785,000	\$966,864
Less: Prior years amortization	200,958	452,339
Current year amortization	15,700	24,172
	-----	-----
Unamortized Balance Contribution in Aid of Construction	<u>\$568,342</u>	<u>\$490,353</u>

The Township customer's contributions in prior years were recorded as contribution in aid of construction instead as current year revenues. The contributions made by customers through sewer assessments (\$137,9180 in prior years have been reclassified to retained earnings, another part of the equity section of the Sewer Fund. This is consistent with the current accounting for sewer assessments being collected and reported.

NOTE B – CASH AND CASH EQUIVALENTS

The Township's deposits and investments at March 31, 2004 are included on the balance under the following classifications:

	Balance Sheet Classifications		
	Cash and Cash Equivalent	Restricted Cash	Total
Deposits-Bank	\$342,798	\$24,497	\$367,295
Cash on hand	826		826
Total cash and cash equivalents	<u>\$343,624</u>	<u>\$24,497</u>	<u>\$368,121</u>

The carrying amount of the Township's deposits with financial institutions was \$368,078 and the bank balance was \$367,295. The bank balance is categorized as follows:

Amount insured by the FDIC or collateralized with securities held by the Township in its name	\$289,763
Uncollateralized and uninsured	77,532
	-----
Total bank balance	<u>\$367,295</u>

The Township's deposits are in accordance with statutory authority. Interest is recorded when the interest is accrued. Certificates of Deposit are recorded at cost, which approximates market value.

INTERIOR TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

NOTE C - RECEIVABLES

Accounts receivable and related allowances for uncollectible are as follows:

<u>Fund</u>	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
General Fund	\$3,761	\$	\$3,761
Water Fund	\$9,392	\$	\$9,392
Sewer Fund	\$1,599	\$	\$1,599
SRF-Road Fund	\$1,024	\$	\$1,024
-Fire Fund	\$1,805	\$	\$1,805

General Fund - generally consists of delinquent tax monies and administrative fees to be remitted to Township shortly after year-end.

Special Revenue (SRF) Funds – generally relate to delinquent tax monies.

Proprietary Funds - customer unpaid balances. Delinquent accounts balances are placed on tax rolls and can be a lien against real property. Receivables are considered to be fully collectible and accordingly, there is not allowance for doubtful accounts.

Customer billing for the month of March 2004	\$3,798
Delinquent billings	<u>7,193</u>
Total	<u>\$10,991</u>

NOTE D - SUMMARY OF TAX ROLL

Following is a summary of the 2003 property tax roll:

	<u>Levy</u>	<u>Taxes Returned Delinquent</u>	<u>Net Collected</u>
Real/Personal Property taxes:			
County	\$100,029	\$16,419	\$83,610
School/SET	158,448	23,919	134,529
Township	26,119	4,656	21,463
CFR	898		898
Special Assessments	7,712	3,775	3,937
Totals:	<u>\$293,206</u>	<u>\$48,769</u>	<u>\$244,437</u>

INTERIOR TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

Taxable valuations- (excludes Commercial  
Forest reserves lands)

Real Property	\$5,854,653
Personal Property	<u>556,813</u>
Totals	<u>\$6,411,466</u>

NOTE E - DELINQUENT TAX RECEIVABLE

The County of Ontonagon purchases the delinquent real property taxes of the Township for the 2003 levied. The County intends to sell tax notes, the proceeds of which will be used to pay the Township for these delinquent taxes shortly after yearend. The delinquent real property taxes are recorded as current year tax revenues.

NOTE F - INVENTORIES

Inventories of Governmental and Proprietary Fund types operating supplies are considered to be immaterial and are not recognized.

NOTE G - INTERFUND RECEIVABLES AND PAYABLE

The amounts of interfund receivables and payable at March 31, 2004, are as follows:

<u>Funds</u>	<u>Interfund Receivable</u>	<u>Funds</u>	<u>Interfund Payable</u>
General Fund-		Water Fund-	
Water	\$1,534	General	\$1,534
Tax	448	Sewer Fund-	
Fire Fund-		Water	124
General	335	General Fund-	
Road	1,091	Road	4,476
Water Fund-		Sewer	2,217
Fire	123	Fire	335
Sewer	124	Road Fund-	
Road Fund-		Fire	1,091
General	4,476	Fire Fund-	
Sewer Fund-		Water	123
General	2,217	Tax Fund-	
		General	448
Totals	<u>\$10,348</u>	Totals	<u>\$10,348</u>

INTERIOR TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

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NOTE H - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follow:

	<u>Balance at</u> <u>March 31, 2003</u>	<u>Additions</u> <u>(Deletions)</u>	<u>Balance at</u> <u>March 31, 2004</u>
Land and improvements	\$23,026	\$300	\$23,326
Buildings and improvements	59,235		59,235
Equipment, fixtures, furniture	58,968	1,446	60,414
Vehicles	43,936		43,936
Totals	<u>\$185,165</u>	<u>\$1,746</u>	<u>\$186,911</u>

A detailed listing of general fixed assets has not been maintained.

NOTE I - ENTERPRISE FUNDS - FIXED ASSETS

A summary of proprietary fund type property, plant and equipment at March 31, 2004 follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Totals</u>
Plant, property and Equipment	\$1,056,860	\$1,130,985	\$2,187,845
Accumulated Depreciation	(292,662)	(563,217)	(855,879)
Totals	<u>\$764,198</u>	<u>\$567,768</u>	<u>\$1,331,966</u>
2003-2004 Depreciation	<u>\$21,333</u>	<u>\$28,625</u>	<u>\$49,958</u>

Depreciation is computed using the straight-line method.

NOTE J - ACCOUNTS PAYABLE

The Governmental Type account payables were for normal expenditures at year-end, whereas, the Enterprise Fund included \$3,950 in contractor repairs contracted but not completed by year end.

INTERIOR TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

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NOTE K - REVENUE BONDS – WATER FUND SERIES I

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On May 24, 1990, the Township issued \$235,000 in water revenue bonds to partially finance the cost of acquiring and constructing the water system. The bonds bear interest at the rate of 5% per annum, which is payable semi-annually on June 1 and December 1 of each year. The bonds are recorded in the Water Fund. As of March 31, 2004, \$207,000 of the bonds remained outstanding as follows:

<u>Due</u> <u>December 1</u>	<u>Principal</u> <u>Amount</u>
2004	\$ 4,000
2005	4,000
2006	5,000
2007	5,000
2008	5,000
2009	6,000
2010	6,000
2011	6,000
2012	6,000
2013	7,000
2014	7,000
2015	7,000
2016	8,000
2017	8,000
2018	9,000
2019	9,000
2020	9,000
2021	9,000
2022	9,000
2023	10,000
2024	10,000
2025	10,000
2026	11,000
2027	12,000
2028	12,000
2029	<u>13,000</u>
Total Outstanding	<u><u>\$207,000</u></u>

INTERIOR TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2003

Bonds are subject to redemption prior to maturity on any interest payment date in inverse numerical order.

These revenue bonds are self-liquidating bonds and are not a general obligation of the Township of Interior, but are payable solely from the revenues of the Water Fund.

NOTE L - REVENUE BONDS - WATER FUND SERIES II

On May 24, 1990, the Township issued \$27,000 in water revenue bonds to partially finance the cost of acquiring and constructing the water system. The bonds bear interest at the rate of 5% per annum, which is payable semi-annually on June 1 and December 1 of each year. The bonds are recorded in the Water Fund. The Township has made additional principal payments in retiring the bond issuance earlier. As of March 31, 2004, \$9,941 of the bonds remained outstanding as follows:

Due <u>December 1</u>	Principal <u>Amount</u>
2004	\$ 500
2005	500
2006	500
2007	500
2008	500
2009	500
2010	500
2011	500
2012	500
2013	500
2014	500
2015	500
2016	500
2017	500
2018	500
2019	1,000
2020	1,000
2021	<u>441</u>
Total Outstanding	<u>\$ 9,941</u>

Bonds are subject to redemption prior to maturity on any interest payment date in inverse numerical order.

These revenue bonds are self-liquidating bonds and are not a general obligation of the Township of Interior, but are payable solely from the revenues of the Water Fund.

INTERIOR TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

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NOTE M - CHANGES IN LONG-TERM DEBT

A summary of the changes in general long-term debt follows:

	<b><u>Balance at</u></b> <b><u>March 31, 2003</u></b>	<b><u>Additions</u></b> <b><u>(Deletions)</u></b>	<b><u>Balance at</u></b> <b><u>March 31, 2004</u></b>
Water Bonds	\$231,600	(\$14,659)	\$216,941

NOTE N - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Township provides water and sewage services through two enterprise funds. Segment information as of March 31, 2004, follows:

	<b><u>Water</u></b> <b><u>Utility</u></b> <b><u>Fund</u></b>	<b><u>Waste Water</u></b> <b><u>Utility</u></b> <b><u>Fund</u></b>	<b><u>Totals</u></b>
Operating revenues	\$47,087	\$3,403	\$50,490
Depreciation expense	\$21,333	\$28,625	\$49,958
Operating income (loss)	(\$3,078)	(\$26,715)	(\$29,793)
Restrictive donations/grants	0	0	0
Operating transfers	0	0	0
Tax revenues	0	0	0
Increase (decrease) in Retained earnings	\$12,622	(\$2,543)	\$10,079
Current capital contribution	0	0	0
Increase (decrease) in Fixed assets	335	336	671
Long-term debt payable from operating revenues	\$216,658	\$	\$216,658
Retained-earnings			
Unreserved (deficit)	\$42,800	\$205,387	\$248,187

INTERIOR TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

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NOTE O - PENSION PLAN

The Township has a defined contribution pension plan administered by Municipal Retirement Systems, Inc., with the Township Clerk being the plan trustee. The Township contributes pension proceeds equal to twelve percent of Board members salaries, which are immediately vested in Gleaner's Life Insurance and Travelers Life and Annuity funds. Pension expense for the fiscal year ended March 31, 2004 was \$1,897. All financial documentation were not on file in allowing for complete disclosure and reporting.

NOTE P - LIQUOR LICENSE REBATES

The Township received \$908 in State Shared Revenues during the year, which is accounted for in the Liquor Fund applied against related expenses with the remaining monies transferred to the General Fund.

NOTE Q - RISK MANAGEMENT

The Township is exposed to various risks of losses related to torts; theft or, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Township has obtained coverage from commercial insurance companies. The Township has comprehensive general liability coverage of \$2,000,000 per occurrence and a \$4,000,000 aggregate limit, with no deductible amount.

All risk management activities are accounted for in the General Fund, Special Revenue Funds and Enterprise Funds of the Township. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

Management estimates that the amount of actual or potential claims against the Township as of March 31, 2004, will not materially affect the financial condition of the Township. Therefore, the General Fund contains no provision for estimated claims. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past four years.

NOTE R - RESTRICTED CASH ACCOUNTS

The Township has designated in General Fund monies of \$645 towards future building inspection activities. The Proprietary Funds have established and funded (\$24,497) various cash accounts in fulfilling various bond covenant agreements.

The Township adopted ordinances before Water System Bonds were issued which required certain bank accounts be established and funded periodically.

INTERIOR TOWNSHIP  
NOTES TO FINANCIAL STATEMENTS  
March 31, 2004

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Receiving Account- All receipts are initially deposited into this account

Operation and Maintenance Accounts-Quarterly transfers are to be made to cover upcoming operating expenses

Bond and Interest Redemption Account-Quarterly transfers are to be made equal to 1/2 of the next interest payment due plus 1/4 of the next principal payment due

Bond Reserve Accounts-Excess funds of up to \$700 per quarter are to be transferred to this account until \$23,941 is accumulated

As of March 31, 2004, the Township had established these accounts but did not fully fund the accounts as required by ordinance.

	Requirements	Actual
	----- March 31, 2004	----- March 31, 2004
Bond Reserve Accounts	\$23,941	\$16,403

NOTE S – PRIOR PERIOD ADJUSTMENT

The Township experienced a cost savings on road work contracted for in a prior year. This reduction in contractual price of \$8,346 has been reflected as an adjustment to the Road - Fund Balance in the enclosed financial statements.

COMBINING AND  
INDIVIDUAL FUND  
FINANCIAL STATEMENTS

INTERIOR TOWNSHIP  
COMBINING BALANCE SHEETS  
PROPRIETARY FUND TYPE  
March 31, 2004

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash	\$37,990	\$123,586	\$161,576
Customer account receivable	9,392	1,599	10,991
Due from other funds	247	2,217	2,464
Prepaid expenses	981	429	1,410
Accrued interest income	73	330	403
<b>Total Current Assets</b>	<b>\$48,683</b>	<b>\$128,161</b>	<b>\$176,844</b>
<b>Fixed Assets:</b>			
Plant, property and equipment	1,056,860	1,130,985	2,187,845
Accumulated depreciation	(292,662)	(563,217)	(855,879)
<b>Other Assets:</b>			
Restricted cash	24,497		24,497
<b>TOTAL ASSETS</b>	<b>\$837,378</b>	<b>\$695,929</b>	<b>\$1,533,307</b>
<b>LIABILITIES &amp; EQUITY</b>			
<b>Current Liabilities:</b>			
Accounts payable	\$4,127		\$4,127
Accrued wages		\$65	65
Accrued interest payable	3,634		3,634
Due to other funds	1,534	124	1,658
Current maturity on LT Debt	4,500		4,500
<b>Total Current Liabilities</b>	<b>\$13,795</b>	<b>\$189</b>	<b>\$13,984</b>
<b>Other Liabilities</b>			
Bonds payable	216,941		216,941
Less: current maturity on LT Debt	(4,500)		(4,500)
<b>TOTAL LIABILITIES</b>	<b>\$226,236</b>	<b>\$189</b>	<b>\$226,425</b>
<b>Fund Equity</b>			
<b>Contributed Capital:</b>			
Federal, state and local	785,000	966,864	1,751,864
Less amount amortized	(216,658)	(476,511)	(693,169)
	568,342	490,353	1,058,695
<b>Retained Earnings</b>	<b>42,800</b>	<b>205,387</b>	<b>248,187</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$837,378</b>	<b>\$695,929</b>	<b>\$1,533,307</b>

The accompanying notes are an integral part of the financial statements

INTERIOR TOWNSHIP  
COMBINING BALANCE SHEETS  
PROPRIETARY FUND TYPE  
March 31, 2003

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash	\$34,973	\$119,930	\$154,903
Customer account receivable	6,630	2,861	9,491
Due from other funds	246	2,565	2,811
Prepaid expenses	1,177	513	1,690
Accrued interest income	138	717	855
<b>Total Current Assets</b>	<b>\$43,164</b>	<b>\$126,586</b>	<b>\$169,750</b>
<b>Fixed Assets:</b>			
Plant, property and equipment	1,056,525	1,130,650	2,187,175
Accumulated depreciation	(271,330)	(534,592)	(805,922)
<b>Other Assets:</b>			
Restricted cash	23,506		23,506
<b>TOTAL ASSETS</b>	<b>\$851,865</b>	<b>\$722,644</b>	<b>\$1,574,509</b>
<b>LIABILITIES &amp; EQUITY</b>			
<b>Current Liabilities:</b>			
Accounts payable	\$272		\$272
Accrued wages	379	\$65	444
Accrued interest payable	3,860		3,860
Due to other funds	1,534	124	1,658
Current maturity on LT Debt	4,500		4,500
<b>Total Current Liabilities</b>	<b>\$10,545</b>	<b>\$189</b>	<b>\$10,734</b>
<b>Other Liabilities</b>			
Bonds payable	231,600		231,600
Less: current maturity on LT Debt	(4,500)		(4,500)
<b>TOTAL LIABILITIES</b>	<b>\$237,645</b>	<b>\$189</b>	<b>\$237,834</b>
<b>Fund Equity</b>			
<b>Contributed Capital:</b>			
Federal, state and local	785,000	966,864	1,751,864
Less amount amortized	(200,958)	(452,339)	(653,297)
	584,042	514,525	1,098,567
<b>Retained Earnings</b>	<b>30,178</b>	<b>207,930</b>	<b>238,108</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$851,865</b>	<b>\$722,644</b>	<b>\$1,574,509</b>

The accompanying notes are an integral part of the financial statements

INTERIOR TOWNSHIP  
COMBINING STATEMENT OF INCOME AND  
CHANGES IN RETAINED EARNING  
PROPRIETARY FUND TYPE  
March 31, 2003

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>Operating revenues:</b>			
Sales to customers	\$35,658	\$9,767	\$45,425
<b>Operating expenses</b>			
Personnel services	\$7,854	\$3,720	\$11,574
Purchase of services	3,862	1,878	5,740
Depreciation	21,288	28,580	49,868
Insurance	2,101	917	3,018
Materials & supplies	982	22	1,004
Utilities	1,792		1,792
Other	970	302	1,272
Total Operating Expenses	\$38,849	\$35,419	\$74,268
<b>INCOME FROM OPERATIONS</b>	<b>(\$3,191)</b>	<b>(\$25,652)</b>	<b>(\$28,843)</b>
Other revenues (expenses):			
Non-operating revenue:			
Interest income	1,124	2,619	3,743
Sewer assessment		3,963	3,963
Non-operating expense - Interest expense	(12,958)		(12,958)
<b>NET INCOME</b>	<b>(\$15,025)</b>	<b>(\$19,070)</b>	<b>(\$34,095)</b>
Provision for depreciation included in operating expenses by external restricted grants	15,700	23,837	39,537
<b>INCREASE IN RETAINED EARNINGS</b>	<b>\$675</b>	<b>\$4,767</b>	<b>\$5,442</b>
Retained earnings 3/31/2002	29,503	203,163	232,666
<b>RETAINED EARNING 3/31/03</b>	<b>\$30,178</b>	<b>\$207,930</b>	<b>\$238,108</b>

The accompanying notes are an integral part of the financial statements.

INTERIOR TOWNSHIP  
COMBINING STATEMENT OF CASH FLOWS  
PROPRIETARY FUND TYPE  
March 31, 2003

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income from operations for the year	(\$3,191)	(\$25,652)	(\$28,843)
Adjustments to reconcile income from operations to net cash provided by (used in) operating activities:			
Depreciation	21,288	28,580	49,868
(Increase) decrease in:			
Trade account receivable	2,446	(101)	2,345
Accrued interest income	118	115	233
Prepaid expense	83	37	120
Due from other funds		(348)	(348)
Increase (decrease) in:			
Accounts payable	182		182
Accrued wages	380	15	395
Accrued interest	(77)		(77)
Total Adjustments	24,420	28,298	52,718
<b>Net Cash Provided by Operating Activities</b>	<b>\$21,229</b>	<b>\$2,646</b>	<b>\$23,875</b>
<b>Cash Flows from Capital and related financing and investing activities:</b>			
Interest income	1,124	2,619	3,743
Sewer assessment		3,963	3,963
System improvements			
Principal paid on loans	(4,500)		(4,500)
Interest paid on bonds	(12,958)		(12,958)
Net cash provided (used) for capital and related financing and investing activities	(16,334)	6,582	(9,752)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>4,895</b>	<b>9,228</b>	<b>14,123</b>
Cash 3/31/2002	53,584	110,702	164,286
<b>CASH 3/31/2003</b>	<b>\$58,479</b>	<b>\$119,930</b>	<b>\$178,409</b>

The accompanying notes are an integral part of the financial statements

# INTERIOR TOWNSHIP

## GENERAL FUND DETAIL OF REVENUES AND OTHER FINANCING SOURCES BUDGET AND ACTUAL Year ended March 31, 2004

<b>REVENUES</b>	<b><u>BUDGET</u></b>	<b><u>ACTUAL</u></b>	<b><u>VARIANCE</u></b>
Current property taxes	\$6,000	\$6,059	\$59
Delinquent property taxes	340	9	(331)
Other tax revenues	415	196	(219)
Swamp taxes	50	43	(7)
Tax administrative fees	2,845	5,048	2,203
Total taxes	\$9,650	\$11,355	\$1,705
State shared revenues	\$26,000	29,667	\$3,667
Charges for services:			
Cemetery	1,250	1,715	465
Sanitation	1,400	1,498	98
Other	700	850	150
	\$3,350	\$4,063	\$713
Rents	\$1,875	\$1,641	(\$234)
Reimbursements	4,467	743	(3,724)
Miscellaneous	230	1,621	1,391
Interest income	500	554	54
	\$5,197	\$2,918	(\$2,279)
TOTAL REVENUES	\$46,072	\$49,644	\$3,572
Other financing sources-Transfer from other funds		\$210	\$210
TOTAL REVENUES AND OTHER FINANCING SOURCE	\$46,072	\$49,854	\$3,782

The accompanying notes are an integral part of the financial statements.

GENERAL FUND

DETAIL OF EXPENDITURES AND COMPARISON WITH BUDGET  
INTERIOR TOWNSHIP

Year ended March 31, 2004

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<b>LEGISLATIVE</b>			
Township Board:			
Salaries		\$1,766	
Retirement		1,897	
Office supplies		1,204	
Communications		437	
Professional fees		3,554	
Printing and publications		180	
Insurance		5,008	
Repairs and maintenance		217	
Training		130	
Miscellaneous		307	
Dues and subscriptions		164	
Chargeback		2	
Real property		300	
<b>TOTAL LEGISLATIVE</b>	<b>\$15,000</b>	<b>\$15,166</b>	<b>(\$166)</b>
 General Government:			
Supervisor:			
Salaries		\$2,400	
Supplies		138	
Communications		116	
Miscellaneous		5	
<b>TOTAL SUPERVISOR</b>	<b>\$3,930</b>	<b>\$2,659</b>	<b>\$1,271</b>
 ELECTION	 \$800	 \$721	 \$79

The accompanying notes are an integral part of the financial statements.

GENERAL FUND  
 DETAIL OF EXPENDITURES AND COMPARISON WITH BUDGET  
 INTERIOR TOWNSHIP  
 Year ended March 31, 2004

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Assessor:			
Wages		\$1,200	
Supplies		154	
Contract costs		1,646	
Transportation		66	
Miscellaneous		98	
TOTAL ASSESSOR	\$3,435	\$3,164	\$271
Clerk:			
Salary		\$1,200	
Deputy clerk		116	
Office supplies		114	
Transportation		88	
Miscellaneous		238	
Equipment		875	
TOTAL CLERK	\$4,110	\$2,631	\$1,479
TOTAL BOARD OF REVIEW	\$530	\$641	(\$111)
Treasurer:			
Salary		\$1,917	
Deputy treasurer		513	
Supplies		714	
Transportation		483	
Miscellaneous		37	
Equipment		570	
TOTAL TREASURER	\$6,880	\$4,234	\$2,646
TOTAL CEMETERY	\$1,100	\$1,544	(\$444)

The accompanying notes are an integral part of the financial statements

GENERAL FUND  
 DETAIL OF EXPENDITURES AND COMPARISON WITH BUDGET  
 INTERIOR TOWNSHIP  
 Year ended March 31, 2004

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Township Properties:			
Wages		\$1,912	
Supplies		144	
Utilities		5,144	
Repairs & maintenance		2,565	
Miscellaneous		1,286	
	\$6,860	\$11,051	(\$4,191)
<b>TOTAL GENERAL GOVERNMENT</b>	<b>\$27,645</b>	<b>\$26,645</b>	<b>\$1,000</b>
Public Safety:			
Inspections	\$850	\$592	\$258
Zonings/planning	1,457	794	663
<b>TOTAL PUBLIC SAFETY</b>	<b>\$2,307</b>	<b>\$1,386</b>	<b>\$921</b>
Public Works:			
Street lights	\$5,000	\$4,134	\$866
Sanitation	1,400	1,150	250
<b>TOTAL PUBLIC WORKS</b>	<b>\$6,400</b>	<b>\$5,284</b>	<b>\$1,116</b>
<b>PARKS &amp; RECREATION</b>	<b>\$400</b>	<b>\$</b>	<b>\$400</b>
OTHER			
Payroll taxes	\$5,460	\$1,043	\$4,417
Economic development	50	50	
<b>TOTAL OTHER</b>	<b>\$5,510</b>	<b>\$1,093</b>	<b>\$4,417</b>

The accompanying notes are an integral part of the financial statements.

# COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS

## INTERIOR TOWNSHIP

Year ended March 31, 2004

	<u>Liquor Law Enforcement</u>	<u>Road Fund</u>	<u>Fire Fund</u>	<u>Building Permits</u>	<u>Totals</u>
Assets:					
Cash in bank	\$	\$96,205	\$17,956	\$	\$114,161
Taxes receivable		1,024	1,805		2,829
Prepaid expenses			1,032		1,032
Accrued interest inc			39		39
Due from other funds		4,476	1,426		5,902
Total Assets	\$	\$101,705	\$22,258	\$	\$123,963
Accounts payable	\$	\$	\$1,142	\$	\$1,142
Accrued wages			125		125
Due to other funds		1,091	123		1,214
Fund balance- unreserved		100,614	20,868		121,482
Total Equity & Liabilities	\$	\$101,705	\$22,258	\$	\$123,963

The accompanying notes are an integral part of the financial statements.

COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES

INTERIOR TOWNSHIP  
Year ended March 31, 2004

	<u>Liquor Law Enforcement</u>	<u>Road Fund</u>	<u>Fire Fund</u>	<u>Building Permits</u>	<u>Totals</u>
Revenues:					
State grants	\$908	\$499			\$1,407
Charges for services				\$1,075	1,075
Interest income		1,243	\$365		1,608
Property taxes		6,064	11,794		17,858
Federal revenues		11,392			11,392
Total Revenues	\$908	\$19,198	\$12,159	\$1,075	\$33,340
Expenditures					
Public safety	\$	\$	\$9,714	\$2,380	\$12,094
Public works					
Liquor law enforcement	698				698
Total Expenditures	\$698	\$	\$9,714	\$2,380	\$12,792
Excess (Deficiency) of Revs over Expenditures	\$210	\$19,198	\$2,445	(\$1,305)	\$20,548
Other financing sources (use)- Operating Transfers	(210)		1,250	1,305	2,345
Excess (Deficiency) of Revenues and Other Financing Source Over Expenditures and Other Financing Use	\$	\$19,198	\$3,695	\$	\$22,893
Fund balance 3/31/2003		73,070	17,173		90,243
Prior period adjustment		8,346			8,346
Fund balance 3/31/2004	\$	\$100,614	\$20,868	\$	\$121,482

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
TAX FUND

INTERIOR TOWNSHIP

Year ended March 31, 2004

	<u>Balance at March 31, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at March 31, 2004</u>
Assets-cash	\$6,043	\$258,866	\$264,909	\$
Account receivable		1,650		1,650
Totals	<u>\$6,043</u>	<u>\$260,516</u>	<u>\$264,909</u>	<u>\$1,650</u>
Liabilities:				
Due to Township	\$1,722	\$33,407	\$34,681	\$448
Due to Others	4,321	227,109	230,228	1,202
	<u>\$6,043</u>	<u>\$260,516</u>	<u>\$264,909</u>	<u>\$1,650</u>

The accompanying notes are an integral part of the financial statements.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Supervisor and Members of the Board  
Interior Township  
Trout Creek, Michigan

We have audited the financial statements of Interior Township as of and for the year ended March 31, 2004, and have issued our report thereon dated September 24, 2004. We conducted the audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Interior Township's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing the audit of the financial statements of Interior Township for the year ended March 31, 2004, we considered the internal control structure in order to determine auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

The management of Interior Township is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the structure to future periods are subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with assertions of management in the financial statements. Reportable conditions noted in our review are as follows:

1. Our audit noted improvements in the General Fund records, whereas, the Enterprise Funds records were not completely posted and reconciled with various bank accounts. Furthermore, not all paid invoices were cancelled and attached to copies of check warrants, for the first part of the fiscal year in allowing for adequate support of expenditures sampled in our review.

We would stress that all funds records be reconciled by the Township Clerk timely with the various bank statements. Also, invoices paid should be retained by the Township Clerk in support of expenditures approved by the Board and paid. Preferably, the invoice be attached to the warrant copy as support of payment

2. The Township Board needs to adopt procedures to ensure that:

- a. Township assets are properly inventoried and accounted for at year-end. A complete formal listing is unavailable to support the amount being reported in the audit report. A detail physical inventory will need to be conducted; assets valued; and amounts adjusted by the Board in providing an accurate basis for reporting and insurance coverage purposes.

- b. Payroll records and reports need to be prepared accurately and timely. Payroll reports provided for our review indicated inconsistent treatment of Board members covered under a pension and exempt from social security taxes. Reports did not readily support tax deposits made which would indicate that reports provided for audit purposes may have been edited. Furthermore, the Township Clerk has not filed quarterly withholding reports and have been paying the State based upon non-reporting tax assessments, which appear to be higher than the actual tax liability. A previous year state tax overpayment still appears to be unresolved. Furthermore, not all pension statements on pension participants were maintained for audit purposes. Treasurer's summer tax collections wages should be subject to withholding taxes not paid as an independent contractor.

The Township Clerk needs to establish accurate payroll files to properly document earnings and taxes withheld on monthly and incorporate results in preparing quarterly and annual reports. Files should be established in documenting all payroll related payments/withholding and retained for audit purposes.

c. Two bond reserve accounts require quarterly contributions of \$350 until \$14,000 in accumulated for each issuance or equal to the amount on bonds outstanding. It would appear that only \$16,403 in reserves are currently restricted, whereas, \$23,941 in monies should be on deposit. The Township may want to make additional principal payments or set aside additional monies in complying with the bond covenants.

d. Safeguarding of important papers, certificates of deposit, accounting records, unused checks, backup files, etc., should be kept in a fireproof vault. Currently, files are safeguard in unsecured file cabinets and computer utility billing program is not password protected in safeguarding against unauthorized access. Furthermore, duplicate utility billing reports should be provided to the Treasurer for safekeeping and retained for audit purposed on a monthly basis.

e. Interfund receivables and payables should be satisfied in allowing for easier reconciling of accounting records on a current basis.

A material weakness is a reportable condition in which the design or operation of one of more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, the reportable conditions described in item 1 and 2 (a) above are believed to be a material weakness.

This report is intended solely for the use of management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Members of the Board, is a matter of public record.

  
Roger J. Kolehmainen PC  
Certified Public Accountant

September 24, 2004